

**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re

W. R. GRACE & CO., *et al.*,

Debtors.

) Chapter 11
)
) Case No. 01-01139 (JKF)
)
) Jointly Administered
)
) Re: Docket No. 19579 and 20204

**FEDERAL INSURANCE COMPANY'S PRELIMINARY OBJECTION TO
CONFIRMATION OF THE FIRST AMENDED PLAN OF REORGANIZATION**

Federal Insurance Company ("Federal") hereby files its preliminary objection to the First Amended Plan or Reorganization (the "Plan")¹ on the following bases:

(i) The Plan is not insurance neutral, and impairs Federal's rights under the policies that Federal issued to the Debtors (the "Policies"), including without limitation, permitting the Asbestos PI Trust to resolve claims without permitting Federal the opportunity to evaluate and defend against Asbestos PI Claim prior to settlement, and the requirement under the Policies that Federal approve each settlement for which the insured intends to seek indemnity from Federal.

(ii) Any insurance coverage allegedly provided by the Policies is subject to the prohibition against assignment, and the proposed assignment of the Debtors' rights under such policies violates Federal's rights under those policies. Further, the Policies are not subject to assignment without Federal's consent, which the Plan Proponents have not received.

(iii) The Plan violates Bankruptcy Code § 1129(a)(5)(A)(ii) in that the Trust Advisory Committee is in a position to control the Asbestos PI Trust, which is a successor to the Debtors with respect to Asbestos Insurance Rights, and the appointment of the members of the Trust Advisory Committee is not consistent with the interest of creditors or with public policy.

¹ Federal expressly reserves and preserves its right to object to the Plan for the bases set forth herein, as well as on any basis that Federal Insurance discovers during the discovery process.

(iv) The Plan has not been proposed in good faith as required by the Bankruptcy Code because it impairs Federal's rights under the Policies, including but not limited to Federal's right to evaluate and associate in the defense of claims, and to approve settlements for which the insured intends to seek indemnity from Federal.

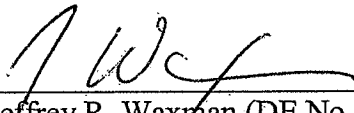
(v) The Plan violates 11 U.S.C. § 524(g), including the trust funding requirements and the releases to be provided under the Plan.

Further, Federal joins in the preliminary objections filed by the Debtors' other insurers, as though fully set forth herein, to the extent applicable to Federal.

WHEREAS for the foregoing reasons, and without prejudice to raising any further issues, Federal Insurance Company objects to the confirmation of the Plan.

Dated: January 5, 2009

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